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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000395

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TAGS: PREL PGOV AJ ENRG

SUBJECT: AZERBAIJAN: TGI FIGHTING NABUCCO, EU AND TURKEY

FOR SHAH DENIZ GAS

REF: BAKU 263

Classified By: Pol/Econ Chief Joan Polaschek, reasons 1.4 (b,d)

¶1. (C) SUMMARY: According to Edison SpA Business Manager Elio Ruggieri, one of the main executives involved in promoting the Turkey-Greece-Italy (TGI) gas pipeline, TGI needs nine bcm/a of Shah Deniz Two gas for sanctioning. The minimum amount it sought was six bcm/a, although this limited amount would force TGI to pursue other alternatives. He asked for USG help in persuading Turkey not to purchase so much SD2 gas that there wasn't enough left to sanction TGI. He also complained that despite TGI and Nabucco having equal status as EU projects, EU officials were unabashedly flacking Nabucco in their travels and public pronouncements, and that by so doing the EU ran the real risk of not only not achieving Nabucco but also preventing the more achievable TGI from becoming a reality. END SUMMARY.

¶2. (C) On April 24 Energy Officer met with Edison's business development manager Elio Ruggieri, in town for the second annual Caspian Oil and Gas Trading and Transportation Conference, and for meetings with SOCAR and the Shah Deniz consortium on behalf of TGI.

¶3. (C) Regarding Shah Deniz Phase Two (SD2) gas, Ruggieri said that it was his assumption that there would be approximately 13 bcm/a, available in late 2013 at the earliest, but more likely closer to 2015. He said that TGI was seeking to get nine of this 13 bcm/a.

¶4. (C) Ruggieri said TGI could "settle for" a minimum of six bcm/a of SD2, but if it got only six, it would have two alternatives. The first alternative would be to seek supplemental sources, either from Russia or Iran. This was not desirable, because the involvement of either of these suppliers could complicate and slow down the process. Ruggieri said that although Russian gas in TGI was an unpleasant alternative, Edison would do what it takes to make a profit. Energy Officer said the USG is strongly opposed to any Iranian gas in TGI, which Ruggieri acknowledged. Continuing, Ruggieri said the other alternative was to seek to convince Azerbaijan to accept a lower netback (i.e. less profit) from the sale of SD2 gas, i.e. sell its gas more cheaply, so that TGI could still afford to build the requisite infrastructure without seeking to pass along the increased capital costs that six vice nine bcm/a would entail. He said that given the (only) 10-15 dollar profit margin per thousand cubic meter (mcm) that the TGI companies purchasing SD2 gas would have, the increased capital costs of amortizing the infrastructure with six vice nine bcm/a could

not be passed along in the final price of gas, so that it would have to be absorbed by lower profits for the seller. He said given the large profit margins the GOAJ had in selling its gas, it might be willing to make a little less than maximum amount if it served a larger geopolitical purpose.

¶15. (C) Ruggieri complained that despite TGI and Nabucco theoretically having equal status within the EU, EU representatives were unabashedly flacking Nabucco and only Nabucco as its representatives visited various countries. As evidence, Ruggieri pointed to press reports of EU External Relations Commissioner Ferrero-Waldner's early April visit to Turkmenistan and subsequent claim that she had gotten a Turkmen agreement to supply 10 bcm/a to Nabucco. He repeated earlier contentions that given the size of SD2 volumes and the unlikeliness that Nabucco could find enough gas to sanction it, TGI was the only commercially viable project in the near-term. If the EU continued to promote Nabucco, not only will Nabucco not be sanctioned, but also it might also lose the chance to make TGI a reality.

¶16. (C) Of equal concern to Ruggieri was the possibility that Turkey would seek the bulk of SD2 gas for itself, leaving amounts too small to sanction TGI. He asked for USG support to help persuade the Turkish government to leave enough SD2 gas for transit through to Europe, thereby fulfilling GOT desire to become a transit country.

¶17. (C) On the possibility of a TGI spur going to Bulgaria, Ruggieri said it was far more likely that if there were a spur it would go to Albania, as the Albanian market was "more appropriate" for the scale of the TGI project.

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¶18. (C) COMMENT: Ruggieri's observations on Nabucco and the EU are not new (reftel). What is new is his expression of concern that Turkey's SD2 gas purchase will be so large as to prevent the sanctioning of TGI. END COMMENT
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